INSIGHT

COVID-19: Consumer Debt Relief During the Pandemic

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The Coronavirus Disease 2019 (COVID-19) pandemic has had a large and persistent economic impact across the United States. Fear of infection, social distancing, and stay-at-home orders prompted business closures and a severe decline in demand for restaurants and travel, among other industries. Consequently, many Americans have lost income and faced financial hardship. Survey results suggest that since March 2020, about half of all U.S. adults live in households that have lost some employment income.

This Insight focuses on legislative and regulatory responses related to the financial services industry for consumers who may have trouble paying their bills. It also discusses recent developments and the future outlook in consumer credit markets.

Consumer Loan Forbearance

Many consumers having trouble paying their bills during the COVID-19 pandemic have received *loan forbearance*. Loan forbearance plans are agreements between borrowers and lenders that allow borrowers to reduce or suspend payments for a short period of time. Forbearance plans do not forgive unpaid loan payments; rather, they extend the time to repay debts owed. As such, they can prevent a consumer from becoming delinquent and potentially experiencing adverse consequences, such as credit score declines, debt collection, or foreclosure.

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) enacted on March 27, 2020, establishes consumer rights to be granted forbearance for federally backed mortgages for up to a year (Section 4022) and federal student loans (Section 3513), administratively extended through the end of January 2021. The CARES Act also protects the credit histories of consumers with forbearance agreements (Section 4021). It does not grant consumers these rights for other loans owed to private creditors, such as auto loans, credit cards, private student loans, and non-federally backed mortgages. In these cases, financial institutions have discretion about when and how to offer relief options.

In addition to this legislative response, financial regulatory agencies have responded to the COVID-19 pandemic using existing statutory authorities to issue new guidance to encourage loan forbearance and other relief options for affected consumers. Regulatory guidance does not force financial institutions to take any particular action for consumers (such as offering loan forbearance), but it can encourage them to

offer various forms of support. Since the pandemic began, many banks and credit unions have announced measures to offer assistance to affected consumers.

For more information on consumer loan forbearance during the COVID-19 pandemic, including CARES Act rights, regulatory guidance, and impacts on consumers and financial institutions, see CRS Report R46356, *COVID-19: Consumer Loan Forbearance and Other Relief Options*, coordinated by Cheryl R. Cooper.

Many consumers having trouble paying their loans may not realize that the CARES Act gives consumers a right to be granted loan forbearance in certain circumstances and that their financial institutions can provide loan forbearance, access to credit, or other assistance. For more information on consumer resources, see CRS Insight IN11359, *COVID-19: Financial Relief and Assistance Resources for Consumers*, by Maura Mullins and Jennifer Teefy.

Consumer Credit Market Developments

As of the fall of 2020, given loan forbearance options and other policy actions, consumers have generally not become more delinquent on their loan obligations. In the second and third quarters of 2020, the percent of delinquent loans declined in most consumer debt markets. Student loans experienced the largest decrease in delinquency, and delinquency rates for most other types of consumer debt also notably fell.

Legislative and regulatory responses to the COVID-19 pandemic helped avoid sharp increases in loan delinquencies by making it possible for many consumers to receive forbearance during the spring and summer of 2020. According to the Mortgage Bankers Association, single-family mortgage loans in forbearance rose from 0.25% in early March to a high of over 8.5% in early June before declining to about 5.5% as of the middle of November. Forbearance increased not only for mortgage loans but also for other consumer credit products such as credit cards and auto loans. According to the Consumer Financial Protection Bureau, payment assistance was more likely to be received by people residing in areas with more COVID-19 cases, areas with majority-Black or majority-Hispanic populations, and areas with larger changes in unemployment since the start of the pandemic.

The CARES Act also provided fiscal relief, including direct income support, which was likely another important factor making it easier for consumers to pay their existing loan obligations. These actions included enhanced unemployment insurance and relief checks phased out for higher-income taxpayers.

For more information about consumer debt during the pandemic, see CRS Report R46578, *COVID-19: Household Debt During the Pandemic*, coordinated by Cheryl R. Cooper.

Future Outlook

Going forward, future economic projections look uncertain, as it is difficult to predict the trajectory of future COVID-19 outbreaks and their subsequent economic impacts. Given this uncertainty, it is unclear whether these delinquency patterns will continue in consumer credit markets. If the economic impacts of the pandemic persist for a long period of time, then loan forbearance may only be delaying consumers from becoming delinquent and defaulting on their loans rather than preventing this outcome. Moreover, large numbers of missed consumer loan payments—due to forbearance or delinquency—could have significant negative consequences for financial institutions and the financial system that affects the future availability of credit.

Future public policy may influence the course of the economic recovery, which could include extending loan forbearance programs or additional income support. Mortgage and student loan forbearance

programs are still in effect, but when these programs expire, some consumers may fall delinquent on their loans. Congress is currently debating whether relief provisions should be extended or whether the costs of these proposals outweigh their benefits. Active legislation that would modify, extend, or create new economic relief programs includes the Heroes Act (first version: H.R. 6800; second version: H.R. 925) in the House and S.Amdt. 2652 and other amendments to S. 178 in the Senate. These bills include additional unemployment insurance benefits, among other economic provisions. The Heroes Act would also expand consumer rights to loan forbearance and other payment relief during the COVID-19 pandemic.

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